

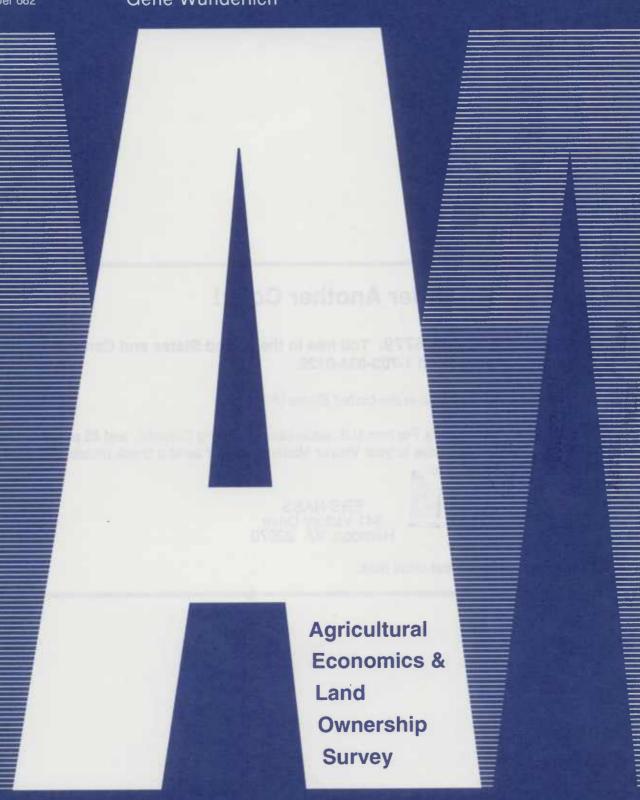
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# cquiring Farmland in the United States

Denise Rogers Gene Wunderlich



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Acquiring Farmland in the United States. By Denise Rogers and Gene Wunderlich. Resources and Technology Division, Economic Research Service, U.S. Department of Agriculture. Agriculture Information Bulletin No. 682.

#### Abstract

By what methods do people acquire farmland? According to the Census of Agriculture's Agricultural Economics and Land Ownership Survey (AELOS), owners acquired 51 percent of their farmland by purchase from a nonrelative, which represents arm's-length or market-driven sales. They acquired another 18 percent in purchase from relatives; these transactions may contain nonmarket influences on price and financing. The remaining 31 percent of farmland was acquired by inheritance, gift, and other methods. Farm operators acquired a higher proportion of their farmland through purchase than did owners who are not farm operators. According to the 1988 AELOS and supporting surveys, 3.5 percent of farmland, on average, changes hands each year.

**Keywords**: Landownership, land transfers, farmland inheritance, land purchase and sale.

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#### **Methods of Farmland Acquisition**

Farmland is acquired primarily by purchase, but a substantial amount of farmland is acquired through inheritance or gift. Family connections may be helpful even in purchase. Only about half of AELOS farmland was acquired by purchase from nonrelatives.

Land is agriculture's principal asset. The Agricultural Economics and Land Ownership Survey (AELOS, see box) reported that 79 percent of farm assets were in land (62 percent) and buildings (17 percent). Farmland is acquired basically for two reasons: to provide secure, long-term access to land for farming and to obtain a return from investment. Farmers can choose to access land by leasing instead of owning; investors (including farmers) can obtain returns from assets others than farmland. The collective response to these farmland access and investment options influences the distribution of income and wealth from U.S. agriculture.

AELOS reported four methods of acquiring agricultural property: purchase from nonrelatives, purchase from relatives, inheritance or gift, and other. Farm operators acquired a higher percentage of their farmland through purchase than owners who are not farm operators. Two-thirds of farm operators acquired at least some of their farmland by purchase from a nonrelative; less than half of nonoperators acquired any of their farmland by purchase from a nonrelative (table 1).

Farm operators, who comprise 56 percent of the owners of farmland, acquired 58 percent of the farmland they owned at the end of 1988 by purchase from nonrelatives (fig. 1). Purchase from nonrelatives was the AELOS proxy for an openmarket transaction. Family influence in farmland transfers is important: 22 percent of the farmland acquired by operators was purchased from relatives, and another 16 percent was an inheritance or gift. No evidence indicates that sale prices to relatives differ from sale prices to nonrelatives; however, special terms for financing and payment, reduced transaction costs, and inside information can alter the implicit price. Operator-owners acquired 4 percent of their land by "other" methods, which may include foreclosures and trades.

Nonoperators, the other 44 percent of farmland owners, acquired only 40 percent of their farmland through purchase from nonrelatives and an additional 12 percent by purchase from relatives. They acquired 39 percent of their farmland by inheritance or gift, and 9 percent by other methods. Operators and nonoperators acquire land differently partly because of age. Nonoperators, on average slightly older than farm operators, have had longer exposure to inheritance possibilities.

Acquiring farmland may require some financing help, but more than 60 percent of acquisitions involved no financing from outside sources. Of the 105,000 owners who reported acquiring farmland in 1988, 39 percent (accounting for 26 percent of the value of farmland acquired) used some outside source of financing. Less than 25 percent of the outside financing was provided by the Federal Land Banks, Farmers Home Administration, and insurance companies. Commercial banks and "other" sources, which include seller financing, accounted for more than 75 percent of financing.

Table 1--Method of acquisition by class of owner, 1988<sup>1</sup>

Market-driven land purchases were less frequent among nonoperator owners than among operators.

Method	Farm operator owners	Nonoperator owners	
	Perc	ent	
Purchase from nonrelative	67	48	
Purchase from relative	32	23	
Inheritance/gift	21	43	
Other	5	5	

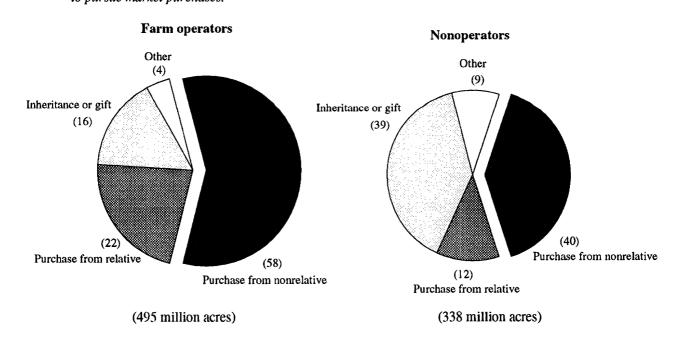
Respondent may have acquired land by more than one method.

#### **AELOS**

The Agricultural Economics and Land Ownership Survey (AELOS) was conducted by the Census of Agriculture as a 1988 follow-on of the 1987 Census. Information from a questionnaire that sampled over 47,000 landlords was combined with information from a sample of 44,000 farm operator-owners. The sample data were expanded to estimate the characteristics of 2,952,282 owners of farmland who own 833 million acres. Of the 833 million acres

of private agricultural land reported in AELOS, 495 million acres, 59 percent, were owned by farm operators. Owners who did not operate a farm held 338 million acres. The combined holdings of operator and nonoperator owners were valued at \$601 billion in 1988. For information on the survey and related data sources, see U.S. Department of Commerce, 1990; and Wunderlich, 1991.

Percentage of farmland, by method of acquisition Farm operators are more apt than nonoperators to pursue market purchases.



#### **Acquisitions and Concentration**

Acquisitions appear to be offset by dispositions and redistributions so that the overall pattern of ownership concentration changes little, if at all.

Farmland is distributed among 2.9 million owners. Farmland ownership is concentrated; less than 2 percent of the population own all U.S. farmland, which itself accounts for two-thirds of the Nation's private land. Four percent of farmland owners hold 47 percent of the farmland, while 30 percent hold only 2 percent of the farmland.

Changes in ownership have allowed the number of owners to shrink while concentration of holdings among owners has remained stable. By far, the largest class of owners (86 percent) is individuals, including husband/wife combinations. Aging and death of individuals redistributes landholdings to younger beneficiaries. Even the other classes of owners, partnerships and most corporations, are influenced by the aging processes of members.

AELOS data support a life-cycle theory of early farmland accumulation, level holding, and final disposition. But the population of owners is aging and the reduction in numbers is enlarging the average holding. If landownership patterns continue, the proportion of farmland held by older, nonoperator owners will grow, while the total number of owners declines. If the number of

owners shrinks while the amount of farmland remains constant or decreases slowly, the average holding will increase.

Farmland holdings of both operator and nonoperator owners 70 and older are substantial. A time series of owner age would indicate landholding trends, but data comparable to AELOS for earlier years are not available. Instead, we compare the holdings of 1988 age classes with the holdings of class cohorts at a previous date (for example, the holding of a 1988 50-year-old with the holding of a 1988 60-year-old in 1978). An increase in holdings from age 50 to 60 may be due to (1) a general trend toward fewer, larger holdings, or (2) an accumulation of farmland by owners aged 50-60. The accumulation over the owners' lifespan appears to be more consistent among owners than an across-the-board enlargement in cohort holdings from decade to decade (table 2).

The pattern of holdings by nonoperator owners differs from that of operator owners. Presumably, in the older ages, retirement from active farming yields an increase in the nonoperator category (fig. 2). The 70-year-old class dominates owners in number, acreage, and value among nonoperators but is much less dominant among operator owners (fig. 3).

Table 2--Average acres owned by 1988 age group, past and present

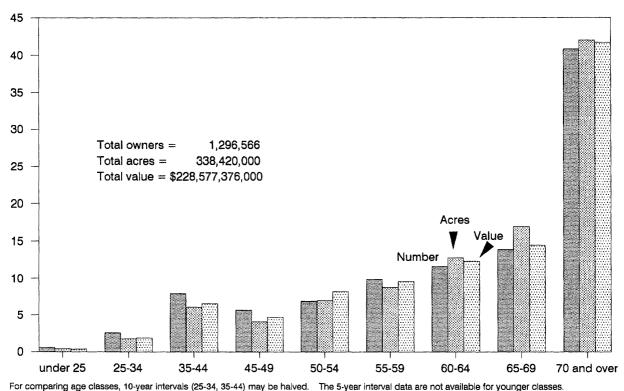
A landowner aged 50-54 in the 1988 AELOS held an average of 264 acres, having accumulated an additional 50 acres from the 214 acres held at age 30-34. By comparison, a landowner aged 50-54 in 1973 (1988's 65/69-year-old) held an average of 270 acres.

Current						<del></del>									
age	70+1	65-69	60-64	55-59	50-54	45-49	40-44	35-39	30-34	25-29	20-24	15-19	10-14	5-9	0-4
							A	cres							<del></del>
< 25 <sup>2</sup>	•	•	-	-	-	-	-	-	-	-	170	156	147	149	126
25-34	-	-	-	•	-	-		-	-	155	144	155	170	163	-
35-44	-	•	-	-	-	-	-	180	171	174	173	176	-	-	-
45-49	-	-	-	-	-	211	203	202	185	167	-	-	-	-	-
50-54	•	-	-	•	264	250	240	228	214	-	-	•	-	-	-
55-59	-	-	-	259	253	243	239	229	-	-	-	-	-	-	-
60-64	-	-	294	293	285	286	273	-	-	-	-	-	-	-	-
65-69	-	291	289	267	270	257	-	-	-	•	-	-	-		-
70+	245	249	246	244	242	-	-	-	-	-	-	_	-	-	-

<sup>&</sup>lt;sup>1</sup> Row shows cumulative history of cohort holdings.

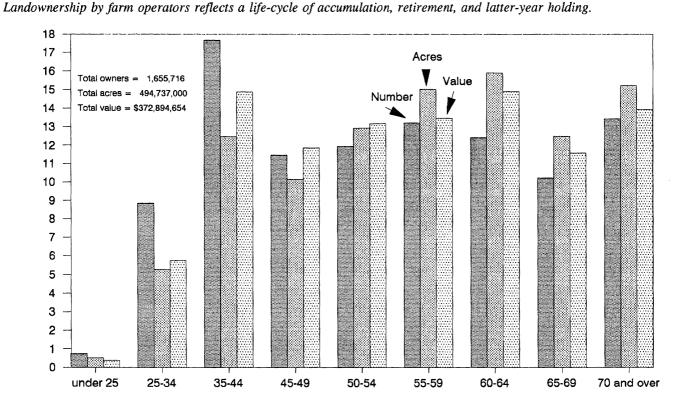
<sup>&</sup>lt;sup>2</sup> Column shows holdings of all cohorts at their same age.

Figure 2 Percentage distribution of nonoperator owners, acres of farmland owned, and value, by age, 1988 Over 60 percent of the farmland owned by nonoperators is held by owners 65 and older.



Percentage distribution of owner-operators, acres of farmland owned, and value, by age, 1988

Figure 3



#### Farmland Changes Hands Infrequently

A slow rate of farmland turnover, with only a fraction of transfers reported as purchase from a nonrelative, means an exceedingly thin sales market. Infrequent transactions, coupled with widely varied qualities of farmland, make land pricing difficult.

On average, 3.5 percent of farmland changes hands each year. At that rate, it takes one generation, about 28 years, for a complete turnover of ownership. The rates are similar over time and across regions (table 3). Despite the relatively low turnover rate of farmland, the amount and value of land transferred each year is substantial. Twentynine million acres, valued at \$21 billion, were transferred in 1988. The transfer of farm real estate is not only a significant redistribution of assets, but the basis for substantial brokerage, appraisal, finance, insurance, legal, and public office fees.

Less than 2 percent of all farmland (51 percent of an annual transfer rate of 3.5 percent) is purchased from nonrelatives each year, according to the AELOS report (fig. 4). Because these market sales occur so infrequently, comparable sales on which to base an estimated price are rare. Farmland quality can vary widely, even within the same community. Prices can be affected by forces other than farmland's income-producing capabilities. Farmland can be appraised by capitalizing net income, but such methods are less reliable where

nonfarm influences are strong. The values of land and buildings reported by AELOS are based on owners' subjective estimates of the market value of their own holdings.

According to AELOS, an annual average of 5.2 percent of owners acquired or disposed of some land in 1983-88. The amount of land transferred was only 3.5 percent per year. Farmland often transfers in less than a whole farm or whole ownership unit, so the percentage of parcels transferred (5.2 percent) is larger than the percentage of acreage transferred (3.5 percent) in a year.

Estimates of farmland transfer rates are based on the combined acquisitions and dispositions of current owners. Because AELOS included only current owners, and omitted owners who became nonowners, both acquisitions and dispositions were counted as transfers. Rates estimated as the sum of current owner acquisitions and dispositions are within the range of rates resulting from surveys conducted by the Economic Research Service for 1986-88 (Barkley and Wunderlich, 1989).

Table 3--Average annual rates of transfer by region, 1983-88

Average turnover of farmland is about once a generation (every 28 years).

2	Number	Aaraa	Annual percentage of land transferred			
Geographic area	of owners	Acres .	Acquisitions	Dispositions	Total <sup>1</sup>	
		1,000	Percent			
lew England	31,361	4,172	2.2	1.3	3.5	
iddle Atlantic	148,161	16,094	2.2	0.5	2.7	
ast North-Central	612,934	87,440	2.5	0.5	3.0	
est North-Central	708,825	255,280	2.6	0.8	3.4	
outh Atlantic	333,050	48,046	2.5	0.5	3.0	
ast South-Central	300,045	41,837	2.8	8.0	3.6	
est South-Central	493,657	168,310	2.9	8.0	3.7	
ountain	156,031	163,318	2.8	1.1	3.9	
cific	168,218	48,659	2.5	0.4	2.9	
nited States	2,952,282	833,157	2.7	0.8	3.5	

<sup>&</sup>lt;sup>1</sup> Since AELOS respondents included only current farmland owners, acquisitions are larger than dispositions. The dispositions of those retired from farming are assumed in acquisitions.

Figure 4
Market-setting transfers as a percentage of farmland transfers,
1988

3.5 percent of farmland transfers ownership each year

Of this, 51 percent...

is purchased from a nonrelative =

1.8 percent of farmland "market-priced" in any one year.

#### **Characteristics of Farmland Owners**

Most farmland is acquired and held by individuals and family units. In 1988, farm operators, who tend to be white men, acquired most of the land transferred. Women, who dominate the nonoperator-owner category, acquire more of their land through inheritance and gifts than do men.

Family relationships strongly influence farm operation and access to farmland. According to AELOS, individual and family owners hold 69 percent of acreage, worth 73 percent of the value of farmland (table 4). The remaining owners are combinations of partnerships, corporations, and other organizational forms. Partnerships may include family members, and a large majority of corporations are family-held.

Individual and family owners made 83 percent of all farmland acquisitions and received 75 percent of the farmland acquired in 1988. Individual and family owners are 57 percent farm operators, 43 percent nonoperators. Family-held corporations are predominantly farm operators, whereas nonfamily corporations are overwhelmingly (84 percent) nonoperators. Nonfamily corporations, which hold 3 percent of farmland, reported less than 3 percent of farmland acquisitions in 1988.

According to AELOS, of the 574 million acres held by individuals and families in 1988, 46 percent was conveyed by inheritance, gift, or purchase from relatives. Even 28 percent of the 35 million acres held by nonfamily corporations was acquired by inheritance, gift, or purchase from a relative.

Method of farmland acquisition varies among racial groups (table 5). Some of these differences may be associated with age, occupation, and owner type. However, white owners hold 99 percent of the farmland. According to AELOS, in 1988 they acquired 46 percent of their farmland by inheritance, gift, or purchase from relative. Data on current acquisitions are so dominated by white landownership that, in aggregate, little can be said about land transfers that is relevant to race.

Women acquire more of their land through inheritance and gifts (46 percent) than do men (19 percent), according to AELOS. Joint owners acquired 34 percent of their farmland through inheritance or gift (table 6). Part of the difference may be attributed to widowhood; women tend to be younger than men at marriage and tend to live longer than men. Hence, they are exposed to inheritance possibilities longer. Although AELOS reported that men owned more land than women, women held more nonoperator-owned farmland.

Table 4--Landownership by type of organization, 1988

Most owners are individuals or families.

Type of organization	Share of holdings		Share	of acres	Share of value	
	Number	Percent	1,000	Percent	\$1,000	Percent
Individual/family	2,562,759	87	574,152	69	440,000,000	73
Partnership	252,764	8	107,023	13	76,860,152	13
Corporation	89,698	3	124,275	15	67,521,003	11
Other	47,061	2	27,707	3	16,673,887	3
Total	2,952,282	100	833,157	100	601,055,042	100

Table 5--Percentage of acreage acquired, by method of acquisition and race, 1988 The method of acquiring farmland differs widely by race.

Race	Number of holdings	Acres	Purchase from nonrelative	Purchase from relative	Inheritance or gift	Other	
		1,000	Percent of acres				
White	2,761,689	673,536	51	20	26	3	
Black	33,598	2,070	37	26	32	5	
Indian	5,976	1,889	25	18	46	11	
Asian	6,006	543	75	14	8	4	
Other	8,254	3,138	8	17	74	1	

Table 6--Percentage of farmland acquired, by method and gender, 1988

Women acquire more of their farmland by inheritance and gift than do men.

Method of	Share of acres acquired by					
acquisition	Men	Women	Joint			
	,	Percent				
Purchase from relative	57	37	46			
Purchase from nonrelative	20	13	17			
Inheritance/gift	19	46	34			
Other	4	4	3			

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#### Acknowledgments

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## Farm Real Estate Values Resume Climb, **Historical Data Show**

Number 22, May 1993

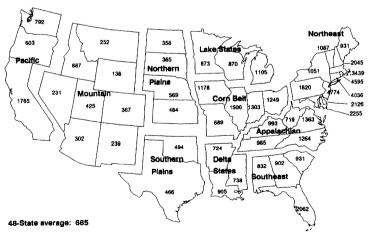
Contact: John Jones (202) 219-0428

he value of U.S. farmland rose by an average of 2.4 percent per year from 1987 to 1992, compared with a decrease of 6.6 percent per year from 1981 to 1986, according to the U.S. Department of Agriculture's Farm Real Estate: Historical Series Data. 1950-92.

Regional trends in the value of farmland generally mirror the national trend. From 1950 to 1982, the Southeast showed the highest rate of growth, while the Northern Plains showed the lowest. The decline in real estate value in the mid-1980's was most pronounced in the Corn Belt, while values actually increased in the Northeast. The present recovery in real estate prices has been most pronounced in the Northern Plains, while lagging in the Southern Plains.

Average farm real estate values in 1992 ranged from \$138 per acre in Wyoming to \$4,774 per acre in New Jersey.

Average value per acre of farm real estate, January 1, 1992



The area of land in farms has declined gradually every year since 1954, at an average rate under 1 percent per year. The number of farms has declined at an average annual rate of 2.3 percent. The average farm size, therefore, rose from 213 acres in 1950 to 467 acres in 1992

United States: Selected statistics on farm real estate, selected years

Year	Farms	Farmland value per acre	Farmland and building value per farm	i Total farmland and building value
	Thousands	Do	llars	Million dollars
1950	5,648	48	13,700	77,600
1960	3,955	86	34,600	136,771
1970	2,944	157	73,000	215,042
1980	2,435	636	313,495	763,285
1990	2,135	538	308,250	658,187
1991	2,100	556	317,950	667,504
1992	2,091	557	319,519	670,798

= Not available.

Excludes Alaska and Hawaii. Data for farms and land in farms are from "Farm Numbers," U.S. Department of Agriculture, National Agricultural Statistics Service.

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# U.S. Agricultural Land is About1 Percent Foreign-Owned

**Number 23, June 1993** 

Contact: J. Peter DeBraal (202) 219-0425

oreign interests owned 14.5 million acres, or slightly more than 1 percent of privately owned U.S. agricultural land as of Dec. 31, 1992, according to the U.S. Department of Agriculture's Economic Research Service. This percentage has stayed about the same since 1981. Acreage in foreign ownership in 1992 actually decreased 2 percent (237,661 acres) from a year earlier.

About 54 percent of the reported foreign holdings involve land actually owned by U.S. corporations. The law requires them to register their landholdings as foreign if as little as 10 percent of their stock is held by foreign investors. The remaining 46 percent of the foreign-held land is owned by investors not affiliated with U.S. firms.

Because of the corporate holdings, an increase in foreign ownership from one year to another does not necessarily represent land newly acquired by foreigners. Nor do the numbers necessarily represent ownership exclusively by foreigners. A U.S. firm's landholdings can show up as "foreign owned" one year, but not another, as the firm's stock passes in and out of foreign hands. The land, however, is still owned by the same entity as before.

These and other findings are based on an analysis of reports submitted to USDA under the Agricultural Foreign Investment Disclosure Act of 1978.

The analysis also revealed:

- Forest land accounts for 49 percent of all foreignowned acreage; cropland, 17 percent; pasture and other agricultural land, 31 percent; and nonagricultural land, 3 percent.
- Corporations (U.S. and foreign) own 72 percent of the foreign-held acreage; partnerships, 20 percent; and individuals, 6 percent. The remaining 2 percent is held by estates, trusts, associations, institutions, and others.
- Japanese investors own only 3 percent of the total foreign-held acreage, in contrast to 25 percent for Canadian investors. Investors (including individu-

- als, corporations, partnerships, etc.) from Canada, the United Kingdom, Germany, France, Switzerland, the Netherlands Antilles, and Mexico own 74 percent of the foreign total.
- The largest foreign-owned acreage, mostly timber-land, was reported in Maine. Foreign holdings account for 14 percent of Maine's privately owned agricultural land. These holdings represent 18 percent of all the reported foreign-owned land nationwide. Four companies own 90 percent of the foreign-held acres in Maine, all in forest land. Two are Canadian, the third is a U.S. corporation that is partially Canadian owned, and the fourth is a U.S. corporation that is partially French owned.

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